ECONOMIC UPDATE

REGIONS

January 8, 2021

December Employment Report: Some Encouraging Signs Beneath A Weak Headline Print

- Nonfarm employment fell by 140,000 jobs in December; prior estimates for October/November were revised up by a net 135,000 jobs
- Average hourly earnings rose by 0.8 percent while aggregate private sector earnings rose by 0.4 percent (down 0.4 percent year-on-year)
- The unemployment rate was unchanged at 6.7 percent in December (6.687 percent, unrounded); the broader U6 measure fell to 11.7 percent

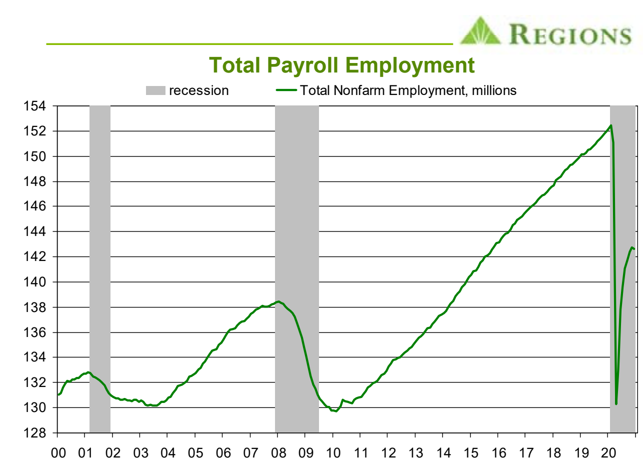
Total nonfarm employment fell by 140,000 jobs in December, worse than either we or the consensus expected, with private sector payrolls down by 95,000 jobs and public sector jobs down by 45,000 jobs. Prior estimates of job growth in October and November were revised up by a net 135,000 jobs for the two-month period, mostly reflecting larger private sector job gains than previously estimated. The unemployment rate held steady at 6.7 percent, with both the size of the labor force and the level of household employment basically unchanged from November, while the broader U6 measure fell to 11.7 percent due to fewer people working part-time for economic reasons. The number of long-term unemployed rose to 3.956 million from 3.941 million in November.

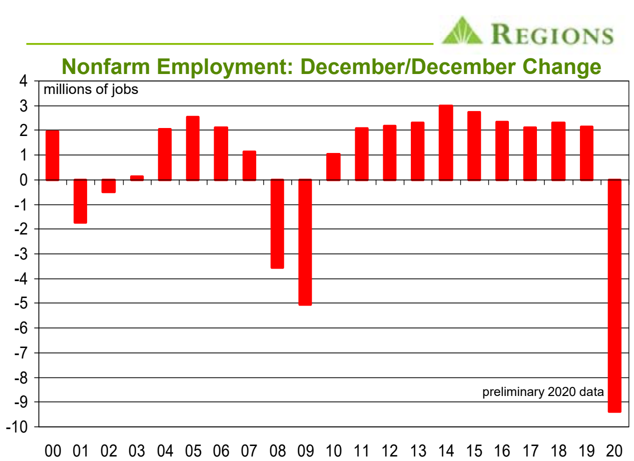
A weaker than expected headline print notwithstanding, the December employment report is not as bad as many feared would be the case. For instance, the entire decline in nonfarm employment in December is accounted for by payrolls in leisure and hospitality services declining by 498,000 jobs, with restaurants shedding 372,000 workers. This reflects the surge in COVID-19 cases that began in mid-November, which led to many state and local governments imposing new limitations on activity. In addition to leisure and hospitality services, the spike in cases also took a toll on payrolls in private education services, which fell by 62,500 jobs in December.

While by no means minimizing job losses in these two industry groups, they do not tell us anything about economic activity over the final weeks of 2020 that we did not already know. We think it is more telling that despite the decline in total nonfarm employment, the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, registered 61.0 percent in December, meaning that there were far more industry groups adding workers than letting workers go. Manufacturing payrolls rose by 38,000 jobs, with broad based gains across the various industry groups. Also standing out is retail trade, which to our surprise added 120,500 jobs in December. This is no gift from generous seasonal adjustment, but instead reflects retailers scrambling to catch up from weaker than normal hiring in November. The not seasonally adjusted data show retail payrolls rose by 230,000 jobs in December, or, a 1.5 percent increase from November. This is a larger increase than is typical for the month of December, but followed a smaller than normal increase in November, suggesting more in-store holiday shopping than seemed likely amidst rising COVID-19 case counts. At the same time, hiring amongst courier/messenger services – which includes commercial and residential delivery services – was far stronger than normal in both November and December, as was hiring amongst warehousing/storage services. While consumer spending on services may have weakened over the final weeks of 2020, the employment data suggest that consumer spending on goods suffered few, if any, ill-effects.

There are some quirks in the December employment report. For instance, on a seasonally adjusted basis, construction payrolls are reported to have risen by 51,000 jobs. The not seasonally adjusted data, however, show a decline of 103,000 jobs, or, a 1.4 percent decline from November. But, as this is a smaller than normal decline for the month of December, the end result is the increase reported in the seasonally adjusted data. That does not mean it should be brushed aside; after all, the raw data show a smaller than normal December decline for a reason. Residential construction remains strong, and in many parts of the U.S. the weather remained more favorable than is typical in December, allowing for builders to continue working and in turn retain workers. Another quirk in the December employment report is the 0.8 percent increase in average hourly earnings, which simply reflects the impact on the mix of jobs of the substantial decline in leisure and hospitality services payrolls.

As odd as it may seem to say in light of the weak headline print, there are many encouraging signs in the December employment report. Some segments of the economy are clearly being hit hard by the ongoing spike in COVID-19 cases, but much of the economy continues to recover, and added financial support for households and small businesses will help sustain that until greater progress is made on the vaccine front.





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